

Message Text

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SUBJ: IRELAND'S TOUGHEST PEACETIME BUDGET

1. FINANCE MINISTER RICHIE RYAN JANUARY 28 INTRODUCED TO THE DAIL (IRISH PARLIAMENT) WHAT HAS BEEN DESCRIBED AS IRELAND'S TOUGHEST PEACETIME BUDGET. THE MOST NOTABLE FEATURES OF THE 1976 BUDGET ARE A SHARP INCREASE IN INDIRECT TAXES AND A HUGE BORROWING REQUIREMENT OF 679 MILLION POUNDS. TOTAL EXPENDITURE ENVISAGED FOR 1976, INCLUDING BOTH CURRENT AND CAPITAL ACCOUNTS, IS 2,105 MILLION POUNDS, WHILE PROJECTED INCOME, INCLUDING ADDITIONAL REVENUE ANTICIPATED FROM TAX INCREASES, IS PROJECTED TO BE 1,426 MILLION POUNDS. THE BORROWING REQUIREMENT REPRESENTS AN INCREASE

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OF 78 MILLION POUNDS OVER THAT OF 1975.

2. MUCH OF THE REACTION TO THE BUDGET IS FOCUSED ON SHARP INCREASES IN TAXES, WHICH ARE EXPECTED TO ADD 107 MILLION POUNDS TO THE EX-CHEQUER IN 1976. TYPICAL OF THE INCREASES ARE 5 PENCE PER PINT OF BEER, 3 PENCE PER PACKAGE OF 20 CIGARETTES AND 10 PENCE PER IMPERIAL GALLON OF GASOLINE. VALUE ADDED TAX RATES ARE INCREASED, THE 6.75 PERCENT RATE BEING RAISED TO 10 PERCENT AND THE 19.5 PERCENT RATE TO 20 PERCENT, AND A NUMBER OF GOODS AND SERVICES PREVIOUSLY EXEMPT ARE NOW SUBJECTED TO VAT. ALSO, THE ROAD TAX ON PRIVATE CARS HAS BEEN SHARPLY INCREASED. FOR EXAMPLE, CARS OF OVER 12 HORSEPOWER CAPACITY MUST NOW PAY SIX POUNDS PER HORSE-POWER PER ANNUM IN ROAD TAX. THIS, COMBINED WITH INCREASED GASOLINE TAXES AND 35 PERCENT VAT ON CARS, WILL MAKE MOTORING AN EXTREMELY EXPENSIVE PASTIME IN IRELAND.

3. ALTHOUGH INDIRECT TAXES ARE UP, SOME RELIEF HAS BEEN ALLOWED ON PERSONAL INCOME TAXES. ALSO, TAX RELIEF FOR INVENTORY REPLACEMENT WILL BE GRANTED TO COMPANIES ENGAGING IN MANUFACTURING, CONSTRUCTION OR FARMING. VARIOUS SOCIAL BENEFITS ARE TO BE INCREASED.

4. RYAN'S ACCOMPANYING STATEMENT MADE CLEAR THE GOVERNMENT'S CONTINUING CONCERN WITH INFLATION, THE NEED TO SAFEGUARD EMPLOYMENT AND THE IMPORTANCE OF LIMITING THE GROWTH OF PUBLIC EXPENDITURE. HIGH PRIORITY IS ATTACHED TO A PAY PAUSE AS A MEANS OF CONTROLLING ESCALATING WAGE DEMANDS, AND RYAN ANNOUNCED THAT HENCEFORTH THE GOVERNMENT WOULD PUBLISH A SEPARATE COST OF LIVING INDEX THAT OMITS ENTIRELY THE EFFECT OF INCREASED TAXATION ON THE COST OF LIVING. THIS "TAX-FREE PRICE INDEX" WOULD PRESUMABLY BE USED AS A REFERENCE FOR WAGE DEMANDS TIED TO THE COST OF LIVING.

5. AS WOULD BE EXPECTED, REACTIONS TO THE TOUGH MEASURES WERE CRITICAL. THE GENERAL SECRETARY OF THE IRISH CONGRESS OF TRADE UNIONS SAID THE BUDGET, BY RAISING PRICES THROUGH INDIRECT TAXATION, DOES NOTHING TO IMPROVE THE LIKELIHOOD OF A PAY PAUSE. THE CONFEDERATION OF IRISH INDUSTRY COMPLAINED THAT THERE IS NO PROVISION FOR DIFFERENTIAL RATES OF TAXATION FOR REINVESTED PROFITS, THAT THE EMPLOYERS' CONTRIBUTION TO SOCIAL WELFARE COSTS IS INCREASED AND THAT THE INCREASED COSTS OF FUEL, ETC. FAR EXCEED THE BENEFITS GAINED FROM TAX RELIEF ON INVENTORY REPLACEMENT. THE LIMITED OFFICIAL USE

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FEDERATED UNION OF EMPLOYERS LAMENTED THE ABSENCE OF MEASURES TO BOOST INVESTMENT AND BUSINESS CONFIDENCE, WHILE THE AUTOMOBILE ASSOCIATION DESCRIBED THE GASOLINE PRICE INCREASE AS "UNBELIEVABLE". SIMILAR COMMENTARY WAS HEARD FROM OTHER MAJOR IRISH ORGANIZATIONS. RYAN, ON THE OTHER HAND, SAID THAT THE OVERALL EFFECT OF THE BUDGET WOULD BE TO RAISE THE ECONOMIC GROWTH RATE TO TWO PERCENT OR MORE. ALSO, HE ANNOUNCED THE GOVERNMENT'S INTENTION TO PHASE OUT THE DEFICIT OVER A PERIOD OF THREE YEARS, BUT DID NOT SPECIFY HOW THIS

WAS TO BE ACCOMPLISHED.

6. COMMENT: IN PREPARING THIS BUDGET THE GOVERNMENT WAS FACED WITH A DIFFICULT TASK. IT HAD TO TAKE INTO ACCOUNT A HIGH RATE OF INFLATION (OVER WHICH THE GOVERNMENT HAS LIMITED CONTROL, BUT AT THE SAME TIME THERE WAS NEED TO STIMULATE BUSINESS AND COPE WITH THE HIGH LEVEL OF UNEMPLOYMENT. THE DECISION WAS TO INCREASE SLIGHTLY GOVERNMENT EXPENDITURE TO COPE WITH THE LATTER PROBLEM WHILE RAISING TAXES TO COUNTERACT THE INFLATIONARY EFFECTS. ONE PROBLEM THAT IS EVIDENT IS THAT RYAN'S BUDGET ASSUMES THAT THERE WILL BE A PAY PAUSE TO DAMPEN INFLATION. HOWEVER, THERE IS A DANGER THAT LABOR WILL DEMAND PAY INCREASES TO COMPENSATE FOR INCREASED PRICES RESULTING FROM THE NEW TAXES. THE NEW TAXES MAY ALSO HAVE THE EFFECT OF DEPRESSING CONSUMER DEMAND. THUS, THERE IS A RISK THAT NEW WAGE DEMANDS AND DEPRESSED CONSUMER DEMAND MAY COMBINE TO OFFSET MUCH OF THE STIMULATORY EFFECT OF THE NEW BUDGET. A POLITICAL ASPECT THAT SHOULD BE BORNE IN MIND IS THAT THE GOVERNMENT, IN ASSUMING A PAY PAUSE, IS ADOPTING A POLICY THAT IS CONTRARY TO THE PHILOSOPHY OF THE JUNIOR PARTNER IN THE COALITION; I.E., THE LABOR PARTY. WHILE THE LABOR PARTY APPRECIATES THE SEVERITY OF THE PRESENT ECONOMIC PROBLEMS, A GOVERNMENT PAY POLICY THAT IS STRONGLY OPPOSED BY ORGANIZED LABOR CANNOT HELP BUT PUT STRAINS ON THE COALITION. CURLEY

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